GOVERNMENT OF INDIA
FINANCE
LOK SABHA

STARRED QUESTION NO:547
ANSWERED ON:03.05.2002
INVESTMENT IN BACKWARD AREAS
VINAY KUMAR SORAKE

Will the Minister of FINANCE be pleased to state:

(a) whether the Government have decided to continue extending income-tax benefits under seciton 80IB of the Income-tax Act,1961, on investments made in backward areas;

(b) whether despite this incentive, no substantial inflow of investment in backward areas, is being witnessed, resulting in stagnant economy in these areas;

(c) whether the Advisory Group on Tax Policy and Tax Administration for the Tenth Plan has observed that such incentives served no purpose; and

(d) if so, the other measures taken or likely to be taken forinflow and investments in backward areas?

Answer

MINISTER OF STATE IN THE MINISTRY OF FINANCE (SHRI GINGEE N. RAMACHANDRAN)

(a) to (d) : A statement is laid on the Table of the House.

STATEMENT REFERRED TO IN REPLY TO THE LOK SABHA STARRED QUESTION NO. 547 FOR 03.05.2002

(a) Yes, Sir. The Finance Bill, 2002 proposes to extend thetax holiday under section 80IB of the Income-tax Act, 1961, to units set up on or before 1st April, 2004, in notified backward districts and Scheduled backward States.

(b) For the purpose of encouraging investment in backward areas, a package comprising of several tax and non-tax benefits is being offered by the Government. The outcome of these measures cannot be exclusively attributed to any particular measure.

However, a study carried out by the National Productivity Council for review of transport subsidy scheme in the backward regions, shows that during August, 1991 to March, 2002, the period during which the tax benefit was available. Letters of intent (LOI) worth Rs.4644 Crores for proposed investments in the backward States were issued.

During the period 1989-90 to 1997-98, the growth in industrialization in backward areas, measured in terms of three parameters, viz., number of factories, employment and output, suggests a mixed picture. While, in the states of Himachal Pradesh, Meghalaya and Nagaland, the performance was much higher than the national average, the performace was lower than the national average in the states of Sikkim and Assam. the growth in the number of factories in five backward districts of the State of Uttranchal has also been above the national average.

The above study also suggestes that, during the period (1993-2000), when the tax benefits under section 80-IB were available; the economy in the backward states has substantially grown compared to pre-1993 times.

The Study report has found fiscal benefits to be generally helpful to industries located in backward and hilly areas and has suggested continuance of such benefits.

(c) Yes, sir. The recommendations of the Advisory Group were examined by this Ministry at the time of the budget exercisefor 2002. It was considered necessary to continue with the tax incentives to backward areas for two more years for promoting industrial growth in these regions.

(d) In addition to direct and indirect tax benefits, other schemes for promoting investment in backward areas are in operation, which include transport subsidy scheme, Central Capital Investment subsidy Scheme, Central Interest Subsidy Scheme, Central Comprehensive Insurance Scheme and Growth Centre Schems.